



Mikkeli Campus

REQUIRED CHARACTERISTICS AND COMPOSITION OF AN OPTIMAL ENTREPRENEURIAL TEAM

BACHELOR'S THESIS

Valtteri Heinilä

International Business
Bachelor's Thesis
Instructor: Heikki Rannikko
Date of submission: 9.4.2018

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Objectives

The main objectives of this study were to identify characteristics that are required in an entrepreneurial team from both the entrepreneurs and investors perspective and how each of these characteristics impacts the performance of the team.

Summary

This study analyzed the required characteristics of an entrepreneurial team by reviewing literature and by collecting data through a qualitative research. The data was gathered from interviews to three entrepreneurs and three business angel investors.

Conclusions

The results indicate that investors need to see that an entrepreneurial team has good dynamics even at the cost of diminishing diversity in the team. The relationship between founding team size and team performance is surprisingly significant in the sample group. Prior startup and industry experience is seen to be beneficial if the team members can gain valuable contacts and knowledge from their work. Ownership also plays a role in entrepreneurial team performance, and should be used as a flexible tool instead of deciding who gets what in the very beginning of the venture.

Key words: ***Entrepreneurship, Entrepreneurial Teams, Business Angel Investor, Startup, Scalable Venture***

Language: English

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ABSTRACT

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1. Introduction

Entrepreneurship has been gathering more attention after the rebound from the global economic crisis in 2008. Technological improvements and access to information has allowed an increasing number of people to avoid the corporation path and instead pursue a career in the form of entrepreneurship. Economists around the world have begun to describe entrepreneurship as a key driver of economic growth (Bampoky et al., 2013; Shane and Venkataraman, 2000). The Global Entrepreneurship Index even estimates that a 3 percent increase in entrepreneurship could add over \$7 trillion to the global economy (Ács et al., 2018). New venture creation has also been seen as an engine for social development as it encourages innovation and creating more sustainable and efficient practices to the world.

Many see entrepreneurship as a career, where they can be their own bosses and have the freedom to work according to their own desire. However, entrepreneurship as an individual effort is becoming a story of the past (Harper 2008). Increasingly, new ventures are launched as collective endeavors, where individuals bind together in hope to rejuvenate industries. Entrepreneurial teams limit the freedom individual team members have, but increase the likelihood of success for the new ventures (Cooper and Bruno, 1977; Bird, 1989). Entrepreneurial teams have been described as the roots and catalyst of most new technology ventures. (Harper 2008) This study focuses primarily on entrepreneurial teams, and more specifically on scalable technology startups. A scalable company is one that has a repeatable business model with minimal incremental cost allowing it to grow rapidly (Zwilling, 2013).

Business angels are considered the lifeline for new growth-seeking ventures, being the most common capital providers (Carpentier, Suret, 2015). The three F's (family, friends, fools) can be of help in the very early stage of a venture, but in most cases the entrepreneurial team requires business angel or venture capital funding long before becoming a profitable company (Wasserman, 2012). Business angels face various different risks when deciding to provide new ventures capital in hopes of seeing that venture fly (Polzin et al., 2017). Providing business angels a framework

of what kind of entrepreneurial teams are more likely to succeed according to prior research, can help them make better investment decisions and narrow the gap between entrepreneurs and capital.

Entrepreneurship is an ever-evolving phenomena. As alternative ways of funding like crypto currencies and new revolutionary technologies emerge the norms of entrepreneurship need to adapt to the change. Entrepreneurial endeavors often face the lack funding, and it is not uncommon for startups to sink due to the shortage of capital (Shepherd and Zacharakis, 2001). This research aims to build an understanding of what kind of characteristics entrepreneurial teams should poses to increase their likelihood of survival and success. The startup scene is saturated both with capital and new ventures in capital, but the two don't seem to find each other efficiently (Carpentier and Suret, 2015). Allowing entrepreneurs to understand what business angel investors value in a entrepreneurial team can help the founders to build and manage a more effective team.

Literature presented and analyzed in this study circles around the entrepreneurial team of new ventures. Song et al. (2008) focused on new technology ventures in their longitudinal analysis of 11,259 companies, creating a firm basis for some of this study's findings. The literature review identified three major characteristics: diversity, experience and size that effect the performance of the entrepreneurial team. In addition, since literature weighed the effect of equity and ownership on the team dynamics (Breugst et al., 2015; Hellmann and Wasserman, 2016), this study found it necessary to analyze how equity should be divided between team members to maximize performance. Schjoedt and Kraus (2009) provided the definition for an entrepreneurial team, along with research on the effects of diversity on team performance. Most of the research and findings presented in the literature review are still applicable today, with a majority of the research having been produced within ten years of this study.

1.1 Research Problem

Entrepreneurship and innovation are key drivers of economic growth, therefore it is important to understand what kind of new ventures and innovation accelerators contribute to the growth through success. More specifically, what kinds of teams are more likely to contribute to the economy by seizing funding, creating jobs and succeeding financially? More and more people chose entrepreneurship as their career path, but success rates remain marginally low (Song et al., 2008). Success and failure factors of the entrepreneurial team remain to be analyzed in depth. Current entrepreneurial research is fragmented and studies results vary widely based on timing, sample, demographics, etcetera (Kristinsson et al., 2016). This study will identify characteristics of entrepreneurial teams and find syntheses about entrepreneurial characteristics that promote the chances of success. Also, the study will examine how entrepreneurial teams are formed and why the formation stage plays a key role in defining the future of the new venture. My research will aim to fill a knowledge gap by comparing the perceptions of investors and entrepreneurs of what is an optimal startup team.

1.2 Research Questions

- What kinds of characteristics are required from a scalable technology startup's management team from the entrepreneur's perspective?
- What kinds of characteristics do investors favor in a scalable technology startup's management team?
- To what extent entrepreneur view on team characteristics and the investor view on team characteristics overlap?

1.3 Research Objectives

In order to study the proposed research questions, this study will conduct the following:

- Review the literature on entrepreneurial teams to gain an understanding of key definitions and characteristics that affect the teams.
- Identify knowledge gaps in the literature.
- Collect data through qualitative research by conducting interviews.
- Analyze collected data.

- Report findings and make conclusions.
- Discuss and analyze data analysis results.
- Discuss potential future research and managerial implications.

2. Review of literature

This literature review will identify similarities in entrepreneurial team literature, and logically analyze different characteristics of entrepreneurial teams. This study acknowledges that seizing funding is an important milestone for new growth seeking ventures, and thus appeals to the fact that funding can improve the rates of success. In particular, this study looks at characteristics that conducive to success or conducive to seizing funding in new growth seeking startups.

2.1 Entrepreneurship and entrepreneurs

Before analyzing entrepreneurial teams, it is important to understand the environment they operate in and the participants of the team. This section will define entrepreneurship and entrepreneurs.

Entrepreneurship has been titled as one of the main drivers of economic growth (Bampoky et al., 2013). Entrepreneurship is becoming a mindset and career decision for an ever-growing number of people; “the discovery and exploitation of profitable opportunities” is apparently appealing to many innovative individuals (Shane and Venkataraman, 2000). Medias around the world glorify entrepreneurship and depict stories about young adults becoming billionaires through the success of their new ventures (Wainner, 2017). Despite the glorification, the success rates of new ventures remain marginal, with a quantitative study showing that only 36 percent of new technology ventures with more than five employees survived four years of business in the United States (Song et al., 2007). Research on entrepreneurship and entrepreneurs is vast, but fragmented, having studies showing widely mixed results. For example, Kristinsson et al. (2016) points out that studies that analyze the relationship between innovation and informational diversity in entrepreneurial teams have presented mixed and conflicting results.

Karabulut (2016) claims that entrepreneurs possess drive from four factors:

1. Need for achievement
2. Risk tolerance
3. Locus of control
4. Entrepreneurial alertness

Literature suggests that successful entrepreneurs are often “jacks-of-all-trades” meaning they possess a variety of skills to perform very different tasks from sales to product development (Wasserman, 2012; Song et al., 2007; Schjoedt and Kraus, 2009). There are various routes that lead to entrepreneurship. Some individuals may be first time entrepreneurs straight out of college while others have been in the startup world for a longer time. This paper will focus on the founding teams that consist of individual entrepreneurs, of new growth ventures.

This study will analyze the required characteristics of entrepreneurial teams from both an investor’s and an entrepreneur’s standpoint. Furthermore, the literature review section will interpret quantitative and qualitative studies to understand the required characteristics and optimal composition of an entrepreneurial team

2.2 Entrepreneurial team formation

One of the first decisions entrepreneurs face is whether to find a company alone or seek cofounders. The formation stage of the entrepreneurial team can be a definitive stage for the startup (Aldrich and Kim, 2007; Tuckman and Jensen, 1977; Harper, 2008). Teams can be formed organically or non-organically, with the former being a social psychological process and the latter a rational process (Aldrich and Kim, 2007). Organic team members find each other by having similarity in social networks, familiarity, proximity (Jehn et al., 1999) and the drive for rejuvenating industries (Schjoedt and Kraus, 2009). Furthermore, similar experiences, perspectives and experiences of team members can draw them together to find a new venture (Jehn et al., 1999). A more rational process model draws non-organic members to each other, where team members are selected on pragmatic instrumental criteria such as skills and expertise (Aldrich and Kim, 2007). The rational process is the commonly recommended process and the one favored by angel investors (Monika and Sharma, 2015) however, the reality can be explained better through social-psychological theories (Aldrich and Kim, 2007).

Tuckman (1965) argues that teams go through four stages: forming, storming, norming and performing. In the forming stage, team members are oriented to the task, followed by the storming stage, which is the emotional response to the task demands. The norming stage sees the entrepreneurial team settle down and communication improves with open exchange of information. Finally, the performing stage is the emergence of solutions.

2.3 Ownership

An inevitable decision that new entrepreneurial teams face, often regarded as the first deal, is the distribution of equity (Hellmann and Wasserman, 2016). How equity is divided is influenced by different factors and can both positively and negatively affect entrepreneurial team performance. Since equity is an economical reward for successful venture performance, it can work as a powerful incentive for team members. It can also push the team to conflict over resentment and envy. (Breugst et al., 2015)

The characteristics analyzed in this paper, diversity, experience and size can all be related to equity distribution. As firm size grows, the tendency of individual team member power tends to decrease. Individuals with more experience are more likely to seize more equity in the formation stage of an entrepreneurial team; they bring more to the table (Shane and Venkataraman, 2000; Harper, 2008). Breugst et al. (2015) provided empirical evidence in their research that “...the team members' perceived justice of equity distribution left an imprint on the entrepreneurial team's interactions.” It can be drawn from current literature that the perception of justice between team members is more valuable to individual members than an unequal or larger share in equity, since conflicts that may arise drive team performance down (Hellmann, Wasserman, 2016; Breugst et al., 2015). However, it can be a difficult task to persuade team members to give up equity in the aim of avoiding conflict inside the startup.

2.4 Entrepreneurial team characteristics that conducive to success

This study aims to define characteristics of entrepreneurial teams that contribute positively to the survival of a new growth venture. Entrepreneurial teams and success are defined in various ways in current literature. A particularly appropriate definition of the former for the purpose of this study is Schjoedt and Kraus, (2009, p. 515):

An entrepreneurial team consists of two or more persons who have an interest, both financial and otherwise, in and commitment to a venture's future and success; whose work is interdependent in the pursuit of common goals and venture success; who are accountable to the entrepreneurial team and for the venture; who are considered to be at the executive level with executive responsibility in the early phases of the venture, including founding and prestart up; and who are seen as a social entity by themselves and by others.

Harper, (2008) introduces the idea of a lone entrepreneur being a team itself. He appeals to the reasoning that a team must consist of multiple characters, but a single individual can be more than one character. Harper's theory is interesting, since it contributes also to the claim that a successful entrepreneur should be a jack-of-all-trades. However, this paper will portray the entrepreneurial team as the early stage management team of a new venture.

Literature is highly fragmented in defining entrepreneurial success. Researchers and academics tend to create definitions that help them identify successful growth seeking ventures from unsuccessful growth seeking ventures in their specific study. However, some reappearing factors of success are venture survival, profitability, growth, output of venture, output of innovation and number of employees (Lechler, 2001; Song et al., 2007; Picken, 2017). This study looks at characteristics that can affect seizing funding, which is often a milestone for growth seeking companies on route to success.

2.4.1 Heterogeneity

The first team characteristic that this study looks at that can highly affect venture performance is diversity within the team. It is commonly understood that diversity in a

team is beneficial, allowing the team to approach situations from multiple perspectives. Business press highlights the benefits of diversity, but few analyze it critically (Kristinsson et al., 2016). However, current literature has conflicting views on what is the right balance between homogeneity and heterogeneity. This analysis, will aim to build from existing literature on what type and how much of diversity is required in an entrepreneurial team in a new venture.

Kristinsson et al. (2016) looks at the relationship between founding team diversity and innovation performance. The research acknowledges three types of diversity: demographic, psychological and informational diversity. Schjoedt and Kraus (2009) on the other hand categorize only two types of diversity, surface level and deep level diversity in their research. This paper will weigh focus on demographic and informational diversity (which are classified as surface level diversity) and only scratch deep level psychological diversity due to the complexity and challenge of measuring psychological diversity.

Some negative aspects of heterogeneity are it being a major driver of conflict and miscommunication (Kristinsson et al., 2016; Schjoedt and Kraus, 2009; Harper, 2008). Kristinsson et al. (2016) found that heterogeneity can negatively affect innovation performance by encouraging cognitive conflict and decreasing the possibility of the implementation of new ideas. Homogeneity limits the scope of an entrepreneurial team, but does not spur conflict while heterogeneity allows a team to approach situations from more perspectives, but encourages conflict (Schjoedt and Kraus, 2009). Conflict can be categorized into constructive and destructive conflict. Constructive conflict is beneficial for a team to experience: it allows team members to learn from failure and share feedback within the team (Schjoedt and Kraus, 2009; Harper, 2008). Also, without constructive conflict a team may experience groupthink. In a groupthink situation, a team unknowingly limits options available and information processing (Peterson et al., 1998). Literature portrays a negative light on destructive conflict, and suggests it should be avoided, since it slows down processes and harms the environment of operation (Schjoedt and Kraus, 2009; Kristinsson et al., 2016).

Newly found entrepreneurial teams tend to be homogenous, due to the nature of finding co-founders; few entrepreneurs engage in entrepreneurial action with individuals that are very different from them (Breugst et al., 2015). The most common bases for a natural formation of a group is similarity (Jehn et al., 1999). A homogeneous team will perform better in a stable environment where communicating with fast responses is beneficial compared to a heterogeneous team. Schjoedt and Kraus (2009, p.516) state that “In turbulent environments, a heterogeneous ET [entrepreneurial team] will have superior performance because the heterogeneous ET makes more comprehensive decisions by considering more options for action.” Diversity tends to be a “double-edged sword” (Chowdhury, 2005) due to the contradictory effects on entrepreneurial teams.

Demographic Diversity

Demographic diversity refers to heterogeneity in immutable characteristics such as gender, race, age and functional background (Nüesch, 2009) within a team or group. Literature on demographic diversity in entrepreneurial teams is limited, but researchers such as Chowdhury (2005) and Nüesch (2009) have completed empirical research creating a clear theoretical foundation for future research. A team should aim at cognitive comprehensiveness to maximize their performance and innovation output. Demographic diversity can highly effect the acquirement of cognitive comprehensiveness in a team, since it may reveal various obstacles on the path. Firstly, demographic diversity may create dissonance in a team, making communication difficult between team members. Heterogeneous members may encounter distrust between each other and possess disparate priorities. Demographically diverse teams have been proven more prone to emotional conflicts, which can harshly harm team effectiveness and performance. The conflicts can emerge from team members having prejudices towards others based on demographic stereotypes. (Chowdhury, 2005) Individuals often consider themselves part of a collective culture instead of an individualistic culture (Chatman et al., 1998). This can decrease the harsh effects of demographic diversity that were mentioned previously, but arguably at only low levels of heterogeneity (Kristinsson et al., 2016). To conclude, demographic diversity can encourage a hostile work environment, suggesting it does not positively influence entrepreneurial team performance (Chowdhury, 2005).

Informational diversity

When groups form naturally, it is common to find individuals with similarity, proximity and familiarity. However, few see the potential benefits that informational diversity can bring to the table. Informational diversity regards the differences in knowledge and perspectives of team members. The heterogeneity usually arises from differences in education, experience and expertise. (Jehn et al., 1999) The question lies: does having a diverse team with different perspectives and opinions contribute positively to team performance?

Kristinsson et al (2016) found a positive relationship between informational diversity of a new ventures founding team and idea generation performance. However, having an knowledgably diverse team brings its own unfavorable outcomes. Informationally heterogeneous teams are more exposed to task related debates about content and process: what to do and how to do it. For example, a group with an engineering background will likely have a different approach to a task compared to a group with sales or marketing backgrounds. (Jehn et al., 1999) Furthermore, Jehn et al (1999) found in their study of 545 employees that teams with differing educational backgrounds have a harder time of defining how to proceed with a problem than teams with more similar educational backgrounds.

Kristinsson et al. (2016) concludes that the positive effects of founding team diversity, especially informational diversity, exceed the negative effects, and therefore should be valued in entrepreneurial teams. Heterogeneity in an entrepreneurial team has also proven to make an initial public offering more likely than a homogeneous team (Breugst et al., 2015). Some research has proved contradictory arguments, finding homogeneous groups more innovative and creative than diverse ones (Jehn et al., 1999), so the question is: does the payoff of having a diverse team with a wider scope exceed that of a more homogeneous team with fewer conflicts?

2.4.2 Experience

A reappearing entrepreneurial team characteristic in current literature is the relationship between prior experience of the entrepreneurial team and entrepreneurial success (Shane and Venkataraman, 2000; Song et al., 2008; Hsu, 2007; Cassar, 2014; Ucbasaran et al., 2010). In this section of the literature review, I will analyze the relationship between prior experience and entrepreneurial success. Experience will be divided into industry and startup experience. This section will also evaluate the effect of human and social capital, gained from prior experience, on success and seizing venture funding.

Song et al. (2008) completed a longitudinal analysis of 11,259 new technology ventures defining 24 meta-factors that are related to performance of new ventures. Out of the 24 meta-factors, eight were found to be positively correlated to venture performance. Finally, two of these eight factors regard the entrepreneurial team: industry and marketing experience. The analysis found that prior start-up experience is not significant in defining new venture performance, and suggested it cannot be used as a reliable measure. Cassar (2014) also found a positive correlation between industry experience and entrepreneurial performance. He also suggested that there is no significant correlation between prior start-up experience and entrepreneurial performance. It is important to define distinctions between industry experience and start-up experience to understand why the correlations are so varying.

Industry experience

Industry experience is defined as the “Combined number of years that the members of the founding management team spent in previous positions that were in similar industries or markets” (Song et al., 2008, p. 26). Operating in an already familiar industry or setting allows the entrepreneur to more effectively evaluate and reduce the number of unknowns in the environment (Chandler, 1996). Uncertainty can be reduced with prior experience providing further understanding and information on the technology and environment at hand. Awareness of industry trends and drivers can be gained with experience in a certain industry, reducing technological ambiguity. (Cassar, 2014)

Startup experience

One of the most valued venture capitalist evaluation criteria is prior startup experience (Carpentier and Suret, 2015). Ironically, studies have found there is little correlation between prior startup experience and new venture performance (Cassar, 2014; Song et al., 2008). Startup experience is defined by Song et al. (2008, p. 12) as “Experience of the firm’s management team in previous start-up situations.” Startup experience allows entrepreneurs to reflect on their past judgment mistakes and improve their future judgments and forecasts. Furthermore, prior startup experience exposes the entrepreneur to performance failures and successes helping them identify potential entrepreneurial opportunities. (Cassar, 2014) Finally, Hsu (2007) revealed that due to the gained human and social capital from prior startup experience, entrepreneurial teams are more likely to seize VC funding than teams with less startup experience.

Despite all these benefits, why is prior startup experience not positively correlated with new venture performance? Ucbasaran et al. (2008) explains this phenomenon through comparative optimism. Individuals and teams with prior startup experience have a greater tendency to be over optimistic, or in other words comparatively optimistic (Ucbasaran et al., 2008; Cassar, 2014), meaning they believe they are less prone to experience negative events than others are. In Ucbasaran et al. (2008) study, they proved the hypothesis that serial entrepreneurs “who have not experienced business failure are more likely to report comparative optimism than novice entrepreneurs.”

Employment and prior industry and entrepreneurial experience provide individuals social and human capital (Shane and Venkataraman, 2000; Hsu, 2007). Social capital is the social networks and relationships individuals’ possess whereas human capital is the prior skills, work experience and accumulated knowledge of a person (Hsu, 2007). Venture capital is a common source of funding, especially for technology base ventures with intellectual property-base assets. In the entrepreneurial playing field, social capital can help new ventures to find the right venture capitalists for them, and use existing networks to seize funding. Human capital inevitably contributes to entrepreneurial engagement by being the foundation for a new endeavor. Social capital can contribute to human capital and vice versa.

“For example, training and prior professional experience (traditional conceptualizations of human capital) can not only contribute to what you know, it can also contribute to who you know.” (Hsu, 2007, p. 724)

Literature, research and studies largely agree on the effects of prior experience to entrepreneurial performance. The main differences in literature lie within the definition of success of the entrepreneurial team. Studies define successes and failures differently, causing occasionally contradicting results. Literature agrees that prior startup experience is not directly correlated with venture performance (Cassar, 2014; Song et al., 2008), but can affect the acquisition of for example human and social capital that can contribute to seizing funding (Shane and Venkataraman, 2000; Hsu, 2007). In growth seeking startups funding can contribute to venture survival and success (Carpentier and Suret, 2015). Industry experience has been found to be positively related to new venture performance, preparing team members to familiar situations and decreasing for example technological ambiguity (Cassar, 2014). Also team members can understand their B2B customers better, if they have worked in similar businesses.

2.4.3 Team Size

A rather unexpected characteristic that can affect entrepreneurial team performance is team size. Entrepreneurial team size can be correlated with both previously analyzed team experience and team diversity. For example, team heterogeneity and group size have been found to be positively associated, as size increases the team likely becomes more diverse (Barringer et al., 2005). Literature on team size focuses on top management teams of larger corporations and project teams (Visintin and Pittino, 2014; Haleblian and Finikelstein, 1993). However, studies on team composition, which also scratch optimal team size, can be found. Many different variables effect the determination of optimal team size such as the industry of operation and the specific work environment (Haleblian and Finikelstein, 1993). This section of the literature review will provide an overall analysis of literature on entrepreneurial team size and draw conclusions on what factors effect it and is there an optimal size proven.

Shrivastava and Tamvada (2011) point out that it is commonly understood in literature that many individuals become entrepreneurs driven by the non-pecuniary benefits like freedom and autonomous decision-making powers. However, when deciding to choose the path of partnership and engaging in a collective endeavor, they sacrifice the freedom to some extent (2011). Increasing team size makes the entrepreneurial team more prone to various different unfavorable events, but also possesses its own benefits (Visintin and Pittino, 2014; Gilbert et al., 2006; Nicolaides et al., 2014; Halebian and Finikelstein, 1993).

Literature has associated the increase in team size with different potential positive outcomes for example; it allows a new venture to distribute responsibility across more individuals (Barringer et al., 2005) and makes it more likely to increase in heterogeneity (Gilbert et al., 2006). A larger team inevitably possesses more talent, resources and social capital than a lone-entrepreneur or smaller team. Furthermore, an environment of support and encouragement can be more conducive in a larger team (Barringer et al., 2005). Finally, Audretsch (2012) provides evidence that the probability of survival of a new growth venture is positively related to firm size.

Larger teams have been challenged in literature as much as they have been praised. Visintin and Pittino (2014) favor smaller sized teams since they are “less likely to exhibit problems of social integration due to the increased opportunities of interaction among their members” (p. 34). Research has also found that entrepreneurial teams with larger size are more prone to experience founder exits than small teams (Shrivastava and Tamvada, 2011), where the founders leave the company to pursue something else. As mentioned earlier, larger teams increase in heterogeneity, which can lead to increased conflict and disagreements between team members (Gilbert, 2006; Jehn et al., 1999). Finally, in larger teams members tendency to monitor all other members decreases. This causes collaboration to decrease whereas the likelihood of team members acting out as “free riders” increases. (Visintin and Pittino, 2014)

Literature proposes there is a fragile balance between all the variables related to team size, from the increase in heterogeneity to the distribution of responsibilities and power. Team size can be an asset as well as a liability to an entrepreneurial

team (Nicolaidis et al., 2014). Shrivastava and Tamvada (2011) suggest that there is an inverted U-shape relationship between entrepreneurial team size and venture performance, hinting that there is an optimal size for a team (the tip of the curve). Shrivastava and Tamvada (p. 6) further point out “An important insight emerging from Kremer’s ‘O-ring theory of development’ is that optimal output is determined by the weakest member of a team production environment.” This suggests that teams experience bottlenecks in their performance, with the weakest performing members being the neck. To conclude, team size is a characteristic that can highly effect team dynamics and performance. Literature suggested optimal team size varies between different variables and industry of operation.

2.5 Entrepreneurs versus Investors

A critical milestone for a new scalable growth-seeking venture is the seizing of investor and venture capital funding. External funding is often the lifeline for new ventures; failing to acquire it may steer a startup to bankruptcy (Shepherd and Zacharakis, 2001). Despite seizing funding being a defining event, only a handful of companies are successfully funded. Polzin et al. (2017) claim that the constraint doesn’t exist in a shortage of ideas or funds, but in the matching process. The market is saturated with venture capital and business angel money as well as passionate entrepreneurs and potential ideas (Carpentier and Suret, 2015; Polzin et al., 2017), but somehow they don’t find one another. Current literature is growing regarding the investigation of why so few entrepreneurial endeavors are funded, but is still limited. As previously discussed, the survival rates of new ventures are still low (Song et al., 2008). There are many variables present in literature affecting the success rates, such as, marketing intensity, entrepreneurial team composition, timing, market size, product innovation etc. (Picken, 2017; Song et al., 2007), but few acknowledge the importance of matching venture capitalists and business angels with entrepreneurial teams. In this section, I will analyze how can entrepreneurial teams increase their chances of being externally funded by exploring team characteristics favored by investors and the matching process.

Research has proven that venture capital backed firms are more likely to succeed than firms backed alternative ways (Sharma and Monika, 2015). Exploring the

criteria and required characteristics of an entrepreneurial team from a VC's [venture capitalist's] perspective can help entrepreneurs understand what is expected of them. Shepherd and Zacharakis (2001) emphasize the importance of generating confidence to the external capital provider. Confidence can be established with transparency, trust (Picken, 2017) and maintaining a good reputation (Shepherd and Zacharakis, 2001). Picken (2017) supports Shepherd's and Zacharakis' ideas by explaining: "Entrepreneurs must maintain credibility and manage financial resources prudently, focusing efforts and resources on the right activities, managing capital and cash flow efficiently, delivering reliably on financial projections, and demonstrating responsible behavior in managing other people's money." (p. 593)

Carpentier and Suret (2015) revealed in their longitudinal analysis of 636 proposals presented to business angels the value of prior experience in an entrepreneurial team. They found slightly contradicting results to studies such as Cassar (2014) and Song et al. (2008) claiming entrepreneurs without entrepreneurial experience are rejected more frequently than those with extensive startup experience. However, Carpentier and Suret (2015) conclude that industry experience dominates management and startup experience in the business angel decision process.

Some studies have shed light on a more unorthodox required characteristic, similarity between the investor and entrepreneur (Franke et al., 2006; Polzin et al., 2017). Franke et al. (2006) claims "Venture capitalists will prefer (*ceteris paribus*) start-ups whose venture team members share major characteristics with them... A rater who had been working exclusively in start-ups before joining the VC industry has a highly significant preference for teams whose members have prior experience mostly from start-ups." (p. 805; p. 822) Studies are often conducted using interviews and questionnaires to venture capitalists, but are not reliable, since the reality of where they appoint their capital is different from their memory and perceptions of it (Franke et al., 2016).

The supply of capital and entrepreneurial endeavors are neither scarce, however there is a difficulty of finding the right investors for the right startups (Polzin et al., 2017). Investors are to a certain extent dependent on the entrepreneurial team on information regarding the venture. This allows the team to work as a gatekeeper:

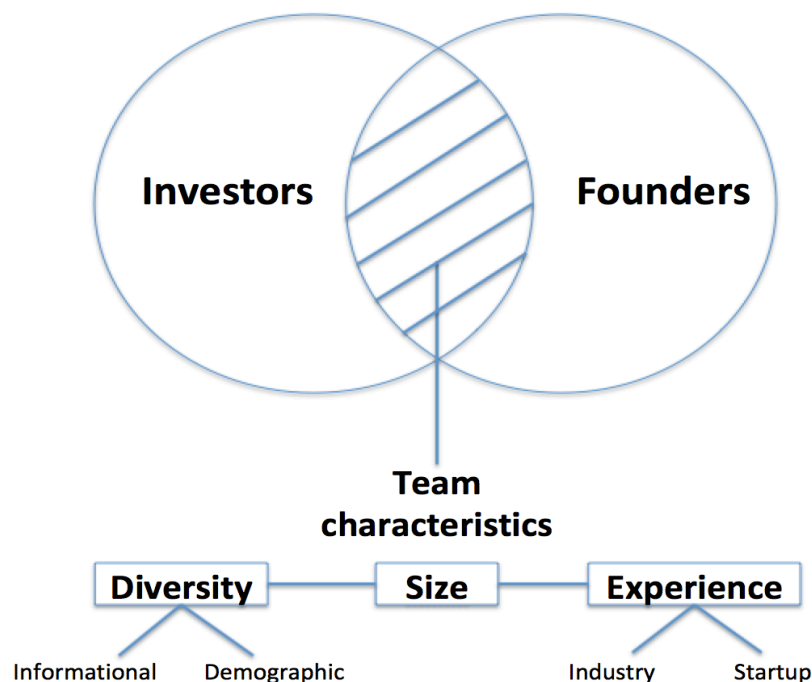
choosing what information to provide and what to limit. (Shepherd and Zacharakis, 2001) Investors have grown more cautious and skeptical of their investments, due to different risks emerging from backing new ventures (Polzin et al., 2017). One of the most feared risks is agency risk, the risk of the entrepreneur acting out as an agent and absorbing perquisites. Investors are usually only backed by intangible assets and trust when providing capital to new ventures, making the latter a tool they can use to minimize agency risk. (Van Osnabrugge, 2000) Picken (2017) explains that “Investors and lenders do not expect perfect foresight, but they do expect prudent management of the financial resources they provide.” (p. 593) The literature suggests that entrepreneurs should aim to provide information on their operations and finances more explicitly to investors to increase the probability of seizing funding. A required characteristic that can be drawn from this is transparency to investors.

Conceptual framework

The conceptual framework displays the relationship between outside capital – founding team and the different characteristics examined in the literature review. There are various different dependencies that effect how each characteristic affect entrepreneurial team performance. The conceptual framework is built around the questions:

- What kind of characteristics are required from a scalable technology startup's management team from the entrepreneur's perspective?
- What kind of characteristics do investors favor in a scalable technology startup's management team?
- To what extent entrepreneur view on team characteristics and the investor view on team characteristics overlap.

This conceptual framework portrays the elements that are present in a new venture team. The knowledge gap present in this conceptual framework is how do Finnish investors perceive the characteristics size, diversity and experience of the founding team compared to how Finnish teams perceive them? Are required characteristics of an entrepreneurial team universal, or do Finnish founders and investors value different levels of the characteristics than the literature suggested?



3. Method

This section of the study will introduce the research processes that were used. More specifically it will explain how was data collected, from whom was it collected and how was it analyzed. The aim of this research is to answer the following research questions:

3.1 Qualitative research

The research in this study is conducted through qualitative research to find answers for the research questions. Prior literature stressed the shattered results of quantitative research, which partly influence this study to use qualitative methods (Franke et al., 2006; Kristinsson et al., 2016). Qualitative research provides a human and authentic method to produce findings to the question at hand, which in this case is, what makes a good entrepreneurial team. The three most common qualitative research forms are participant observation, in-depth interviews and focus groups. The form used for this study is in-depth interviews, since collecting data on investors' and entrepreneurs' personal histories, experiences and perceptions of entrepreneurial teams provides a appropriate bases to answering the research questions. The interviews conducted aimed to be relaxed and open to create an environment of trust for the interviewees in order to access somewhat personal and delicate information. Interviews also provide a more personal and unique view on issues than quantitative research provides, allowing the researcher to assess each interviewee separately.

3.2 Sample group selection

The sample group chosen for this research was seen to be the most appropriate in answering the research questions. Since this study focuses on new growth seeking startups, it is fitting to interview that industry's professionals: investors and startup founders.

3.2.1 Investors

The investors were chosen according to their portfolios and experience of startup investments. The investors are all Finnish business angels, who have broad knowledge of the funding of startups in Finland. They belong to the age group of 40 – 60 years old, with experience in both the corporate and startup world. The investor sample group consists of two male investors and one female investor.

The group was selected using purposive and snowball sampling methods. Purposive sampling is a non-probability sample that is selected based on the characteristics of the interviewee. This research aimed to find Finnish business angel investors with at least 10 years of experience of investing into scalable new ventures. Even though many of the interviewees hold a board position in the Finnish Business Angel Network, they are heterogeneous regarding their experiences and backgrounds and provide a robust view on startup funding in the Nordics. All of the investors have also worked as entrepreneurs themselves making them not only knowledgeable on the financing of new ventures, but also on the challenges entrepreneurs face. Snowball sampling occurs when participants, in this case angel investors, recruit other participants to take part in the test or study. The advantages of snowball sampling in this study is that the initial participant can reach out to investors they see best fit for the study by knowing their personalities and portfolios better than the researcher. Without snowball sampling, reaching investors would have been very challenging.

Investors were contacted initially through emails, which lead to either a phone interview or face-to-face meeting.

3.2.2 Startups

The startups chosen for this research were also chosen using purposive sampling. They have all been founded with more than one founder and have unique insights on what they believe are required characteristics of an entrepreneurial team. They represent the growing SaaS industry by all founders having founded a scalable SaaS company in Finland. Founder 2 is a serial entrepreneur, with his current startup not being his first entrepreneurial endeavor while the two other founders are first time

entrepreneurs. The age of the startups vary from 2 years to 7 years and the size from 10 to 60 employees. The startups have all been formed in different ways, for example with startup 1 being found by three college friends, startup 2 by a 30, 40 and 50 year old colleagues through a spinoff from another company and startup 3 by friends and an recruited founder.

All startup founder interviews were conducted via phone call due to the convenience of this method and the busy schedules of the startup founders.

The sample group of investors are involved with similar startups as the ones chosen for this study. This allows the researcher to compare the perceptions of the investors and startups regarding a scalable technology startup's management team.

Investor 1 is one of the founders of the Finnish Business Angels Network with almost 20 years of experience as an angel investor. He has a portfolio of 47 investments and plays an active role as an advisor or board member in a number of these startups.

Investor 2 is also one of the founders of the Finnish Business Angels Network. He has been a business angel for ten years gaining a portfolio of 15 startups. He works closely with many of these startups on a weekly basis as an advisor or board member. Investor 2 has evaluated hundreds of startups and currently runs an accelerator program for them.

Investor 3 is currently a board member in four different startups and the CEO of one. She has a portfolio of 12 growth companies and is also a board member at the Finnish Business Angels Networks.

Startup founder 1 is the CEO and co-founder of a global SaaS startup that has grown at the rate of 100% over the last three years. He has over 7 years of

experience as a founder, CEO and board member. His company currently has 60 employees in 5 different countries.

Startup founder 2 is the CEO and co-founder of a growing FinTech company in Finland. He has over 5 years of experience working in the financial sector, and is currently working on his second startup. His startup currently has 10 employees.

Startup founder 3 is the prior CEO and co-founder of a Helsinki based SaaS company with currently 10 employees. He is the youngest of the participants in this study and currently working on his masters degree. His founding team has 2 founders from Finland and 2 from Vietnam.

3.3 Interview structure

This study and research on entrepreneurial teams is based on gathering data through interviews from the topic area's professionals. The interviews started with a little small talk in Finnish to get to familiarize both the interviewer and interviewee with each other followed by a formal part in English. The formal part of the interviews were semi-structured with some broader questions and varying follow up questions depending on the interviewee's answers. The interviews for angel investors and startup founders were highly similar with in-depth questions. This allows the researcher to compare answers and perceptions on the discussed topics between the two subject groups.

The interviews were either conducted face-to-face or via phone call. Both methods were recorded and the audio recordings converted to text. The texts were then coded based on themes and ideas and finally funneled into only key concepts.

4. Results

What kind of characteristics are required from a scalable technology startup's management team from the entrepreneur's perspective?

All of the startup founders interviewed for this study have formed their companies in different ways. Founder 1 has found his company with his two friends, with close to identical informational backgrounds. All of them were 22-year-old white males from Helsinki when forming their startup. They all majored in the same subject and had little to no work experience before finding their endeavor. Founder 1 however, understood they need to have a more dissimilar team, and therefore later hired individuals with different informational backgrounds.

Founder 2 worked already as an entrepreneur before finding his most recent startup. He left his previous company and took along the chairman of the board and a founder to find the most recent endeavor. The previous startup they worked at operated in the same industry of financial technology as the new company they found.

Founder 3 left a big role in a growth company called DealDash to find his own business. He began to focus on his endeavor first with his Vietnamese friend, after which they took along two other individuals. Interestingly, one of the individuals was found in an event called TeamUp, which gathers like-minded individuals who could potentially find a company together.

The opinions the founders had on team size were highly affected by their own personal experiences. Founder 3 was a fan of Alibaba, and explained that there is not really an optimal size, as long as every new founder brings something new to the table. He explained that Alibaba needed all of its 18 founders, and would have not worked the same if even one of them wasn't part of the early stages of the company. Shrivastava and Tamvada (2011) suggested larger teams are more likely to experience founder exits than smaller teams. Ironically Founder 3's founding team, the largest team with 4 founders, experienced a CEO and co-founder exit recently. The exit was due to different opinions of where the company should place its vision, and the best option for the CEO was to go and pursue his new vision on his own.

Founder 1 hasn't had any problems with the size of their founding team. He simply suggested three to four founders seems like a good amount, with all of the founders adapting a different role. Founder 2 on the other hand had a strong opinion of the amount of founders a startup should have. He stated: "...the previous company we had four co-founders, and now we have three. Three is so much better. Four is way too many, because you don't end up having decisions since you have two versus two, where two guys think something (and two something else) and you know you still need to move on. If its two versus one its an obvious one (decision)." Founder two hints a founding team should consist of an odd number of founders in order to be able to vote on decisions effectively. Another solution could also be to give the CEO a stronger vote to avoid even voting results.

Team size was seen to be also correlated with the discussion of equity during the interviews. As the literature points out, the power of each team member is likely to decrease as the team size grows since ownership decreases. The founders had differing opinions on how the ownership should be initially split. Previous studies emphasized the importance in perceiving justice on the equity division, but only founder 2 mentioned this. He argued all founders should have an equal share of ownership so "investors see that 'Ok these guys are all in it together'. But if investors see that ok one guy owns 80% and the two other guys 10% well the balance isn't quite right. Everyone should be in it together equally" (Founder 2).

Founder 1 disagreed with Founder 2's thoughts on how to divide the pie. He claimed the ownership should be divided based on how much value each founder brings to the company and how much work each one does. I followed up and asked that "don't you think the two other guys with 20% will be less motivated than the guy with 60%?" to which he answered "No. If the one guy is able to bring all the clients etcetera they (two guys with 20% each) will be happy to work there. They are being able to benefit from having that one other guy aboard." The difference in perceptions between Founder 1 and Founder 2 can be explained by Breugst et al. (2015) finding that: "A closer personal relationship between entrepreneurial team members prior to founding the venture increases the likelihood that the equity distribution is perceived to be just." The founders of Founder 1's company had been close college friends

prior to finding their company, unlike Founder 2 who found his company with individuals better described as colleagues than friends.

Founder 3 was more in the middle ground, suggesting that the person with the initial idea should be the CEO with a slightly larger share of equity: "...a bit more, not too much more."

The founders did not have too much to say about prior experience, since out of the three founders, only one founder had corporate experience. Founder 1, having no to little prior work experience, leaned towards other personal characteristics such as passion, tenacity and competence. He did not further explain on what the tenacity should be focused on, but later investor findings suggest tenacity should be on the entrepreneurial mindset instead of an individual idea. The founders had a mutual understanding on informational diversity, all of mentioning diversification of skills as an important characteristic of an entrepreneurial team. Even Founder 1 having very similarly skilled co-founders acknowledged the importance of diversity in skill sets. He suggested that at the latest the people the founders hire should be very different in informational backgrounds and skills.

What kind of characteristics do investors favor in a scalable technology startup's management team?

The second research question aims to identify characteristics that investors find valuable in a new growth-seeking venture. As the literature review studied, many new startups require external funding long before becoming a profitable venture. The three F's (family, friends, fools) can provide some capital to launch a venture, but investors have been seen to act as a lifeline for most startups. The investors interviewed for this particular study represent a majority of Finnish business angels. They have vast knowledge on the entrepreneurial scene in Finland with all of them having been entrepreneurs themselves. Their portfolios include startups from various sectors with emphasis on the technology sector. This section will analyze the data produced by the investors.

When investors decide to invest, they expect to be with the company for a number of years and to see it grow (Investor 1; Investor 3). Therefore, investors do not find the formation stage of the team as vital as the literature suggested. Investor 1 said the stereotypical team is three 27 to 37 year old males with some kind of degrees. Teams tend to form organically in Finland, where the founders often are friends with resembling traits. Investor 3 even suggested founders should have similar personalities to avoid clashing and more easily build a connection when pursuing a common goal. Furthermore, Investor 2 said the founders should have worked together before pursuing a startup collectively. He said by having prior work experience with the other founders they could avoid surprises that can appear when not knowing each other's working habits. The investors seemed to lean to the fact that a team does not need to have a diverse group of founders in the beginning, but the people they hire should cover a wide field of expertise. The similarity in founders is supported by the literature, which suggests organically formed teams are more likely to succeed due to the commitment they share towards accomplishing the vision. (Schjoedt and Kraus, 2009; Ramirez, 2016).

The questions presented to the angel investors regarding team size gathered similar data among them. Investor 1 used three founders in most of the examples he brought out during the interview: "...all the teams look very much the same: 3 guys..." "...only have 3 MBA sales talent...". Investor 2 also felt three founders is a good number of founders. The workload in the beginning in most technology companies can be divided well amongst 3 founders, and as the customers increase or company develops, new members can be hired (Investor 3). One common risk investor's face is founders acting out as agents: pursuing their own interests over stakeholder interests. Having less founders decreases the barrier for a founder to leave or become uncooperative, since less people rely on them. On the other hand, in a larger team the likelihood of members acting out as free riders loafing around increases. (Visintin and Pittino, 2014) It would seem that the investors acknowledge this and suggest the optimal balance in a Finnish startup would be 3 to 5 founders. (Investor 1, 2, 3)

After the founding team has been formed, one of the first big decisions is how to split the ownership between the founders. Investor 1 found the process of splitting equity

shortly after forming a company arbitrary. He suggested, “They should have a flexible pool of shares and then vote on who gets to get how many”. Equity works as an incentive for both the startups and investors. If investors are financially tied to a new venture, it is more likely they will mentor and advise the venture (Shepherd and Zacharakis, 2001). Investor 1 regarded equity as a “flexible tool” that can be used in many ways. The tool Investor 2 saw it most useful for was giving a little extra power for the CEO, saying that since they carry the more legal responsibility, they should have more. Investor 1 also hinted that there should be one person in charge, the one with exceptional talent, possessing possibly more equity. Literature suggested the feeling of justice is the most important aspect when dividing the pie (Breugst et al., 2015). Investor 3 felt the same way. She stated, “If the members feel that the equity isn’t shared well in a way that is just for all, there will be difficulties in the future.” Finally, there was one similarity present in all data from the interviewees: there should be agreements on equity that punish founders for leaving the company. The agreements help investors feel that there is a smaller risk of a founder leaving if their equity is removed from them upon exit.

The investors operate and all live primarily in Finland. When questioned about diversity they all took their time to answer. Demographic diversity does not appear to be a problem in Finland where “teams look very much the same. Three guys, male, 27 -37 years old and all have some studies. 90% right handed...” (Investor 1). Investor 2 had some experience with demographic diversity seeing the benefits of having different founders of different age. He explained how the older founders bring a sense of realism and experience while the younger founders energy and optimism. The interviews quickly pivoted focus towards informational diversity. Here investors 1 and 2 underlined the importance of not having founders with similar skill sets since they don’t bring anything new to the startup. Investor 3 lightened the importance by stating that the founding team does not necessarily need to be knowledgeably diverse, but the people they hire do. Investor 1 again expected exceptional talent in one of the founders, and said “If there was three (founders): good sales guy, good tech guy and good engineer. I rather have one exceptional talent and two ok guys.” As most of the businesses the investors are involved with are in some way or another technology companies, they expect some technical member or engineer in the founding team. Investor 1 wrapped up that his statement about having technical

skills in a founding team by stating, “If I had to choose between a team of business people and engineers I would choose the engineers.”

Angel investors are usually only backed by intangible assets and trust when investing into new ventures. They want to know that their money will be in good hands and use when providing capital to startups (Van Osnabrugge, 2000). Knowing that the team they are providing money to has been successful in the past can help investors minimize the threat of losing the capital they are providing. Investor 3 and Investor 2 when investing look at have the individual members of the team been successful in the past. The success doesn’t need to be work related, as Investor 1 puts it, “If they are world champions in short track ice-skating that’s a good example. I think ‘OK these guys are motivated on something. They can really do something.’ If they are super talented in something else it is also a good kind of indicator.” Founders have to show they are ready to commit to the endeavor.

Founder 2 interestingly pointed out why experience from a large corporation may even be unfavorable. He argues that in the corporation world your responsibilities are narrow, you are used to steady and formal work whereas in the startup world you have to be multidisciplinary and flexible, being able to change quickly between roles. Furthermore, he says, “Corporation fellas are not so flexible or even hard working (as startup people). They are used to the steady income and the uncertainty is not too easy to cope with for corporation fellas.” McGinnis (2016) portrays in his book this big contrast people face when leaving the stability of a traditional career to pursue a career as an entrepreneur. McGinnis explains that it is difficult for individuals to be on the other side of the table for example when pitching and “begging” for capital from investors. Founders 1 and 3 did not see this side to the story. Founder 1 stated that he respects the people who come from McKenzie or other big companies to start a new venture, and does not see corporate experience as bad.

To what extent entrepreneur view on team characteristics and the investor view on team characteristics overlap.

Finland's startup scheme might seem broad and vast for to the outside, with events like Slush and Arctic15 taking place every year, new VC firms forming and with the public presence of TEKES. Nonetheless, the startup scene here is small compared to the US or even Sweden (Founder 3). There is a tight community of investors, whom most founders know and some get to pitch to. The samples of founders and investors are in the same boat. The startups of the founders approach like-minded investors as this study interviewed when seeking outside capital. This section will compare the interview data generated by the investors to the data generated by the founders, to find similarities or differences of perceptions of an optimal entrepreneurial team.

4.1 Differences in perceptions

Franke et al. (2006) found in their research "What you are is what you like - similarity biases in venture capitalists' evaluations of start-up teams" that venture capitalists unconsciously favor teams that are similar to themselves when evaluating startups. This has provided anecdotal results in some studies analyzing angel investors investment behavior (2006). Founder 3 hinted this same bias when suggesting Finnish investors favor veterans who have extensive experience in a certain field, *"...in Finland, most investors would value industry experience a lot due to most startup success cases have come from veterans in specific industries."* To understand if these biases took place in this study, a longitudinal research study would have to be completed on the investors. Nonetheless it is undoubtedly understandable that investors favor teams that they can easily relate to and bond with.

This study found that investors are more likely to invest into teams that they see are able to pivot from an idea fast. The founders did not hint this characteristic in the interviews conducted. Founders seldom pursue an idea that they think they might not finish with. Investor 1 described this dilemma by stating: *"(The team needs) capability of giving up bad ideas, being open to new ideas. The founding team has an idea, it's their baby. Other persons come to the team and they want to put their footprint on the baby. Do they think that nobody understands my business better*

than I do, and that's trouble. It's not going to work." Investor 2 followed with saying *"They need to be able to change direction fast, and not hold tightly to the original (idea). They need to understand that 'now we have to change direction' and to do it fast and effectively. To be agile."* Investor 1 also supported this characteristic: *"They are honest with the problems, sometimes the problems are so big that you can't solve them... Then you pivot and come up with something completely different. That's what the best teams can do."* Investors have a third person view to the startup, and can see things the founders can't. Founders may be blinded by their attachment to their idea or as Investor 3 put it *"their baby"*. Knowing from the start that there is a high possibility that the original idea may not be the final one, could help entrepreneurs lessen their emotional attachment to their ideas.

The investors disagreed with Founder 2's perceptions on how equity should be split. The general opinion seemed to be based on how much value each member brings to the company. Founder 2 saw that investors value equal equity split between founders since it shows them that all the founders are in the endeavor together. This misconception may be based on Founder 2's prior experiences with investors or his own perceptions. But the overall consensus seems to be that equity does not need to be split equally to have a higher chance of succeeding.

4.2 Syntheses

It is likely that the original founding team will not all make it to the finish line of the endeavor (Investor 1). There is a chance someone's family situation changes, conflict forces someone to leave or some other factor triggers a founder exit. When an member leaves from the entrepreneurial team, investors hope to see some kind of contract that forces the person who exits to give or sell back their equity to the company. This allows the company to continue to use the pool of equity as an efficient tool on getting replacement members or acquiring funding. Founder 1 agrees that *"...they will (should) have a big penalty of for not sticking around"*, the penalty being the seizing of the exiting member's equity in the business.

The entrepreneurial team is only a portion of the whole startup. There is additionally the idea, business plan, return, risk etc. related to the entrepreneurial endeavor. The team nonetheless is considered by all sample group participants as the most

important factor of a startup in the beginning. *“A class idea isn’t executed with a B team, but an A class team can execute a C idea.”* (Investor 3) *“Much rather invest in a superstar team and an ok idea than a superstar idea and an ok team.”* (Founder 2) As previously mentioned, the investors value a team that can pivot from idea to idea efficiently, weighing the importance of the team versus the idea even more. Investor 2 concluded that the importance of the team decreases as time goes by and the business settles down. Only then the product and its competitiveness becomes of more importance.

Characteristic	Entrepreneur versus Investor perceptions
Diversity	The founders and investors all agree that there should be a diversification of skills in the entrepreneurial team. Investors acknowledge that in Finland the founding team may possess similar personalities and backgrounds, but further hires should have differing skill sets.
Experience	The founders had differing opinions on prior experience based on their personal backgrounds. All of them agreed that neither startup or corporate experience can be harmful. Two of the three investors valued prior corporate experience and prior success in any field from being a professional athlete to being successful at McKenzie. One investor emphasized the negative aspects of corporate experience, suggesting it is not a required characteristic. The overall understanding seems to be that if prior experience helps you create valuable contacts and gain knowledge in the field of the to-be startup it should be pursued.
Size	Investors leaned towards having three founders in the beginning of a startup. The founders also suggested three is an ideal number of founding team members. Founder 2 emphasized to avoid four founders due to the potential of equal votes when making decisions.
Ownership	All participants had differing views of the division of equity. The three themes that came present regarding equity were: perceived justice, how much value the members bring and level of commitment. Investor 1's suggestion indirectly brings all these themes together. He proposed founders should vote on how many each get since it is arbitrary to decide in the beginning before you know the value and commitment members bring.

5. Discussion

What characteristics are required in an entrepreneurial team?

The research results showed that the entrepreneurial team is a complex cluster of different members and outside pull and push factors that can drive the team various directions. Each factor affects teams in unique ways that are hard to precisely predict even by extensive research. Conclusions can however be drawn from the data received in this study. The literature review provided a bigger picture of entrepreneurial team characteristics while the qualitative research let the researcher descend to the playing field to see how things really are on the ground level in new technology ventures.

The first realization of this paper is how different the entrepreneurial scene is in Finland from the scene studied in the literature review. The norms of entrepreneurial teams are not as universal as previously expected. The literature used for this paper largely focused on US entrepreneurial teams, where the environment is very different from the environment of the Finnish investors and startups interviewed for this study. Even though some literature focused strictly on new technology ventures (Song et al., 2007), the scene in Finland is quite disparate. For example, literature emphasized the negative effects of an overly diverse team (Chowdhury, 2005; Jehn et al., 1999), but as Investor 1 noted, diversity is not much of an issue in Finland since all the startups seem to look very similar with a homogeneous group of founders. Thus, data could not be sufficiently collected regarding demographic diversity in entrepreneurial teams. However, Founder 3's startup, which undoubtedly had the most demographically diverse team and largest team had experienced a founder exit recently, supporting literature that diversity can have negative consequences (Shrivastava and Tamvada, 2011). Due to the relatively small sample size, it cannot be drawn that the founder exit was caused solely by heterogeneity in the founding team. Founder 2 and Investor 2 noted the benefits of having diversification in the age of founders. The literature reviewed did not concern age as a notable characteristic as the participants did. Founder 3 mentioned that large age gaps between investors and founders may cause problems in the chemistry between the parties, but this risk can also be reduced by having older founding team members.

The founding teams formation stage has been described as a definitive stage for a startup (Tuckman and Jensen, 1977; Harper, 2008). It can define the winners from the losers according to literature (Aldrich and Kim, 2007). The investors interviewed for this study agreed that the formation is an important step for a startup, but would not describe it as vital as literature portrayed it. Monika and Sharma (2015) suggested that investors favor teams found rationally, where founders are selected based on their skills and expertise. This study proved otherwise, with all investors leaning to teams that are formed organically. Investor 3 values teams that get along well with each other even if this costs diversity to decrease. “Not so many differences (between the founders)...It takes so much time when the company starts arguing.” (Investor 3) Literature proposed that the most common way of forming a team is similarity between founders. This was supported by both all the founders and investors apart from Founder 3. Founders shouldn’t therefore seek individuals very different from them in the sake of increasing the diversity of the founding team, since having good relationships with founders is more beneficial than a wide scope. The optimal path would be to have similar personalities and values but varying skill sets, so they get along well, but can also complete several different tasks.

How investors and founders perceived the value of prior startup or industry experience of the founding teams seemed to follow their own experiences. Founder 1 with industry experience, unsurprisingly saw the vast benefits of working in the corporate world before pursuing a career as an entrepreneur. Franke et al. (2006) research in “What you are is what you like” can be extended from describing investors to also describing founders. Founder 2 with no industry experience thought less highly of prior industry experience and did not see it as required as Founder 1 saw it. Investor 2 shed a darker light on industry experience, claiming it does not prepare members well for the startup scene. He continued to find reasons that negatively affect the startup readiness of corporation people. However, the literature found a positive correlation between industry experience and new venture performance. If a team member is able to gain human and social capital from industry experience, it may prove to be highly valuable when trying to acquire funding (Shane and Venkataraman, 2000; Hsu, 2007). Shepherd and Zacharakis, 2001 explained how building a good reputation increases the probability of being funded by external capital providers. Founder 1 also saw reputation as a key

characteristic when asked what makes a good team, stating: “First of all for me it’s the reputation. In Finland especially a lot of doors open up and a lot of funding is at your doorstep if your reputation is right.” Investor 3 also supports the role of reputation in an entrepreneurial team, asking the question: “What’s the track record? Has the person been successful...” when considering to invest.

Founder 2 was the only one to have a precise example and reasoning for why three founders is the optimal amount. He stated that in his prior endeavor with four founders there were too many two versus two arguments that the company stagnated. Having an odd number of founders encourages faster decision making due to more seldom having equal votes. The power of the investors can be argued to be greater in small teams than large ones. Founder 3 noted there are so many different factors and variables that she cannot give a definitive answer to optimal team size. She had even unexpectedly invested into a solopreneur in the past, which is seldom among angel investors. She explained that “If it’s only one founder, you have also the possibility to cherry pick the team and choose the cofounders.” The valuation of small teams is usually lower than large teams, allowing investors to gain a larger piece of the company for the same capital (Chen et al., 2012). Investor 1 did not care much for the physical amount of founders as long as one founder is exceptionally talented and the “captain in that team”. Based on the data gathered from all participants, three founders hint to be in the delicate area of optimal for a new technology venture. With three founders, the investors still have a higher tendency of gaining a larger say in the company, and mentoring the founding team more closely than a team with more than three founders. The dependencies are very complex and as Founder 3 suggested, it depends on the situation, Alibaba would not be the same if it would have not had all of its 18 founders.

During the analysis of the angel investor interviews it came to light that business angels do not expect perfection from an entrepreneurial team. They don’t expect the founders to be a highly diverse group of individuals, or to have extensive experience in a certain field. Investors require the founders to be approachable, but don’t require them to be their best friends. Investor 1 explained this by stating: “What I’m looking for is exceptional talent to change the world. Those people that are going to change the world, are they going to be normal? Most likely they are a little bit rough on the

edges.” Investor 3 required endurance and courage from the entrepreneurial team. According to Crunchbase.com’s Mark Lennon, acquired companies were an average of seven years old at the time of the exit in the US. Keeping and growing a startup for seven years undoubtedly requires endurance from the team. The team also needs to be able to pivot quickly. Investor 2 felt teams need to be agile and flexible, to be able to turn direction and learn to fail fast to move on. Transparency is important in building trust between investors and founders (Investor 2; Investor 3; Picken, 2017). Since the assets capital providers receive from startups are only intangible assets, trust is ever more important. Providing honest financial estimates and knowing when a problem is too big to solve are according to the investors important characteristics.

6. Conclusion

6.1 Main Findings

This study set out to answer the following research questions: What kinds of characteristics are required from a scalable technology startup’s management team from the entrepreneur’s perspective? What kinds of characteristics do investors favor in a scalable technology startup’s management team? To what extent entrepreneur view on team characteristics and the investor view on team characteristics overlap? Empirical evidence show that the founding team is a complex structure and the effects of different characteristics are dependent on various factors. The results proved that investors need to see that an entrepreneurial team has good dynamics even at the cost of diminishing diversity. Entrepreneurs predicted the perceptions of investors relatively accurately. Personal experiences of the investors and founders were seen to affect their answers and views of what kinds of teams work and what don’t. The optimal levels are characteristics are not as universal as previously suspected, as seen in the Finnish environment of the research, where for example diversity in founding teams is rarely an issue.

6.2 Implications for International Business

Entrepreneurship is a global phenomenon and a key driver of global economic growth (Ács et al., 2018). Growth seeking startups often aim to cross borders to increase sales since domestic markets become too limited at some point.

Understanding the required characteristics of an entrepreneurial team can allow a Finnish startup to develop a team that can grow to the extent of potentially having international sales some day. All of the startups and founders presented in this study are aiming to grow internationally. The Finnish home market is relatively small, which also drives the investors to be more attracted to international businesses. None of the investors who participated in this study focus on fully domestic businesses; they have mostly invested into scalable international startups.

6.3 Limitations and Further Research

This study paved a short but firm path for future research in the area of entrepreneurial teams. Conducting research with a sample that has subjects from around the world could allow a more universal understanding of what kind of entrepreneurial team characteristics increase the likelihood of success. The globalization of startups and angel investors allows them to pursue endeavors and provide capital to companies abroad, but the startup scenes are usually quite domestic, having different kinds of teams succeed in different countries.

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